MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1 2022/2023 (TERM ID 2210)

BMB3024 – MONEY AND BANKING

(All sections / Groups)

15 FEBRUARY 2023
9.00 am to 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. Excluding the cover page, this final examination paper consists of **TWO (2)** pages of **FOUR (4)** structured questions. Marks are shown for each question.
2. **Answer ALL questions** in the answer booklet provided.

Answer ALL questions.

Question One (25 marks)

(a) Present the ***four*** determinants of asset demand. (8 marks)

(b) Interpret how the ***Liquidity Preference*** framework and the ***Asset Demand*** framework justify an increase in expected inflation rate will result in an increase in interest rates. (8 marks)

(c) Illustrate graphically when a central bank's implementation of tight monetary policy to manage the situation in (b). Present your explanation in your graphical illustration. (9 marks)

Question Two(25 marks)

Refer to the extracted report and answer the following questions.

According to a Bank Negara Malaysia (BNM) report, technological advancements and the increasing pace of digitalisation have led to the rising adoption of digital payments and the emergence of privately-issued digital assets. BNM does not have any immediate plans to issue its own central bank digital currency (CBDC). CBDC is a central bank banknotes and coins made available in electronic form.

BNM will actively assess the potential value proposition of CBDC in light of developments in the digital assets and payments space. CBDC issuance should complement existing payment instruments including physical cash to ensure that all Malaysians, in particular the underserved communities, have continued access to safe and efficient payment solutions.

Source: https://www.bnm.gov.my/documents/20124/3026128/ar2020_en_box2_digitalcurrency.pdf

(a) Present your opinion of ***three (3)*** most desired features of CBDC. (9 marks)

(b) Assess ***four (4)*** advantages of financial innovations like digital currency. (12 marks)

(c) Predict if digital currency might put banks in a developing economy like Malaysia, out of business. (4 marks)

Question Three (25 marks)

Refer to the extracted news report and answer the following questions.

Ringgit depreciates to weakest level against Singapore dollar at 3.2738

KUALA LUMPUR (Oct 13): The ringgit on Thursday (Oct 13) closed at a new record low of 3.2738 against the Singapore dollar, compared with Wednesday's close at 3.2609, as the island republic's currency benefited from expectations of a tightening move by the Monetary Authority of Singapore (MAS) on Friday to curb inflation. Across the broader currency market, it was reported that Asian currencies were broadly flat, as investors stuck to the sidelines ahead of highly-anticipated US inflation data on Thursday, after minutes from a US Federal Reserve (Fed) meeting reiterated that rates would likely remain higher for longer. A strong US inflation print could reinforce expectations of aggressive Fed policy tightening, weighing on riskier assets, Reuters reported.

Source: https://ceomorningbrief.theedgemalaysia.com/2022/0460/

Continued ...

Based on the news article above, answer the following questions

(a) Assess the meaning "The ringgit on Thursday (Oct 13) closed at a new record low of 3.2738 against the Singapore dollar, compared with Wednesday's close at 3.2609 ...." (4 marks)

(b) Examine three effects of the current position of RM against the Singapore dollar. (9 marks)

(c) Present your explanation of how will (a) affect the expected future exchange rate (E^e_{t+1}) of RM against SGD. (4 marks)

(d) Illustrate graphically and analyse how (b) might affect the demand for assets in the Malaysian foreign exchange market. (8 marks)

Question Four (25 marks)

Refer to the extracted news report and answer the following questions.

Sri Lanka: Why is the country in an economic crisis?

BBC News (14 July 2022) People have been struggling with daily power cuts and shortages of basics such as fuel, food and medicines. Inflation is running at more than 50%. Schools have closed, and people have been asked to work from home to help conserve supplies. In May it failed to make an interest payment on its foreign debt for the first time in its history. Failure to pay debt interest can damage a country's reputation with investors, making it harder for it to borrow the money it needs on international markets. This can further harm confidence in its currency and economy.

President Rajapaksa resigned after fleeing to Singapore. Sri Lanka needs a functioning government to tackle the financial crisis.

The country owes more than $51bn (£39bn) to foreign lenders, including $6.5bn to China, which has begun discussions about restructuring its loans. The World Bank has agreed to lend Sri Lanka $600m, and India has offered at least $1.9bn. The International Monetary Fund (IMF) is discussing a possible $3bn (£2.5bn) loan. But it would require a stable government that could raise interest rates and taxes to help fund the deal, so any bailout may be delayed until a new administration is in place.

Source: https://www.bbc.com/news/world-asia-62765262

Based on the news article above, answer the following questions

(a) Present ***three (3)*** causes of Sri Lanka's financial crisis. (9 marks)

(b) Present ***four (4)*** precautionary steps for a country like Sri Lanka to rebuild a more stable and robust financial system. (12 marks)

(c) Sri Lanka is a member of the South Asian Association for Regional Co-operation (SAARC). Predict two benefits of being a member of SAARC. (4 marks)

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